STRICTLY CONFIDENTIAL (FR) CLASS I-FOMC

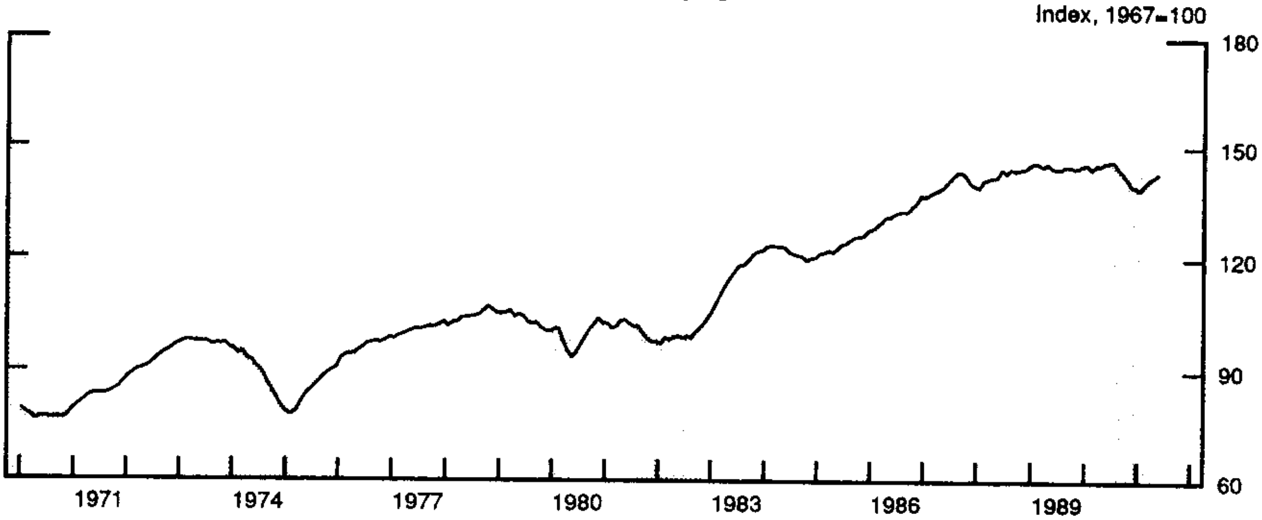
Material for

Staff Presentation to the Federal Open Market Committee

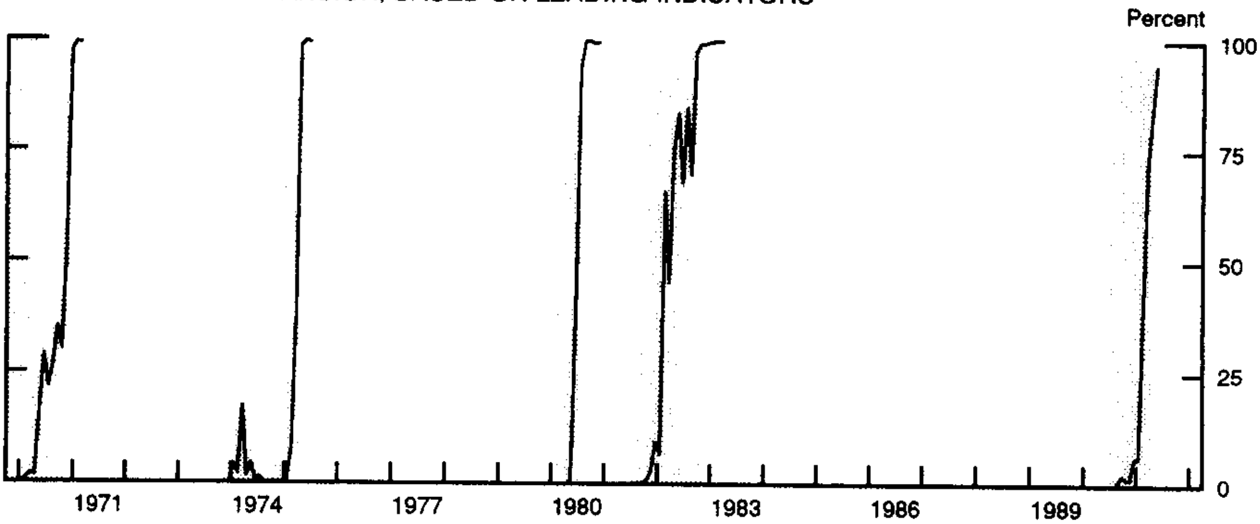
July 2, 1991

Chart 1

COMPOSITE INDEX OF LEADING ECONOMIC INDICATORS



PROBABILITY OF EXPANSION, BASED ON LEADING INDICATORS *



*Each observation represents the probability that an expansion has begun or will begin during the next three months.

INDEX OF COINCIDENT INDICATORS

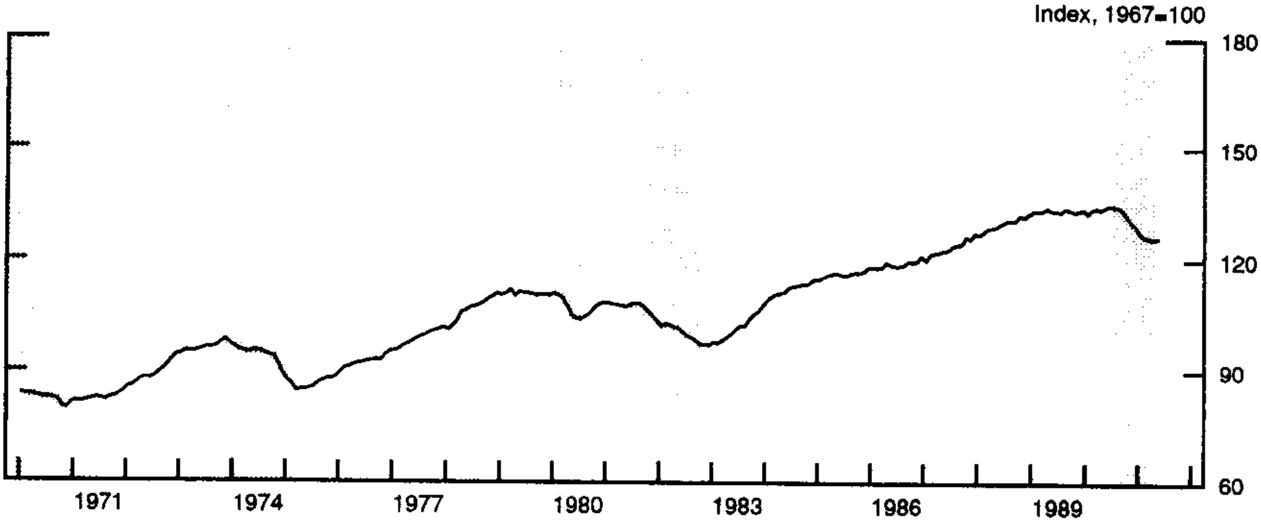
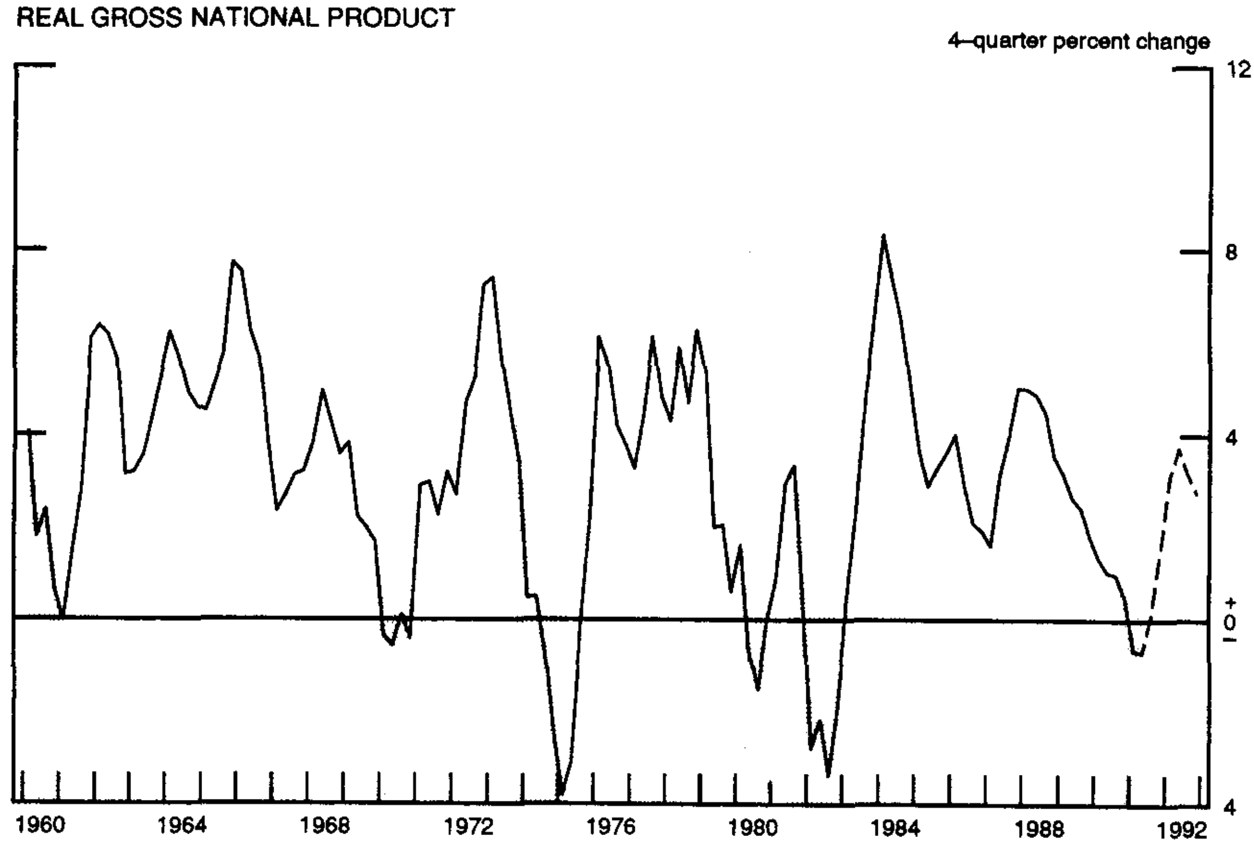


Chart 2

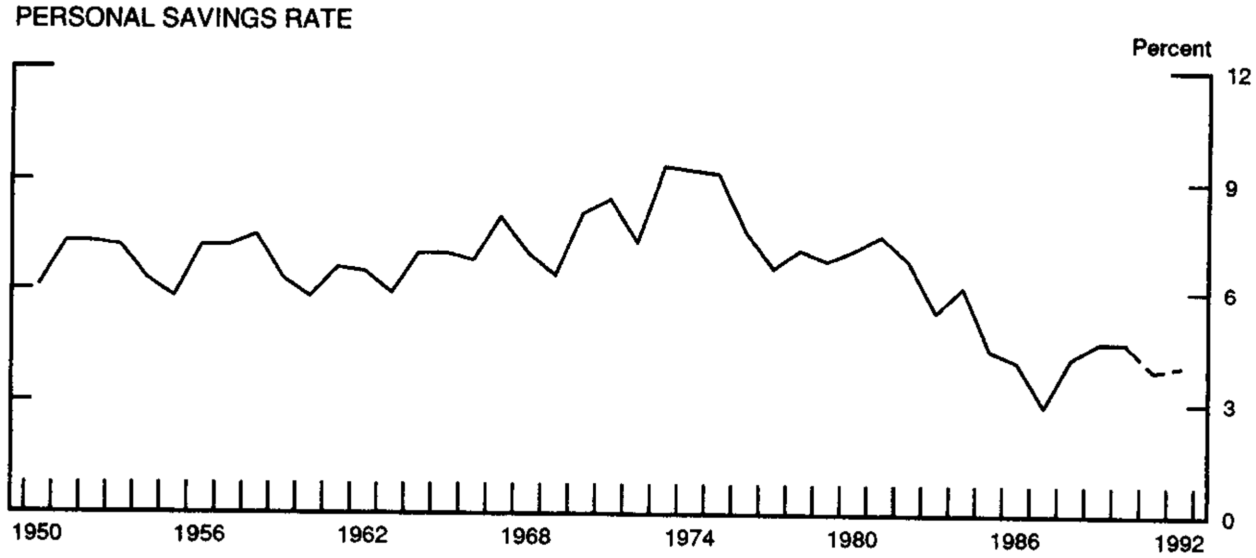


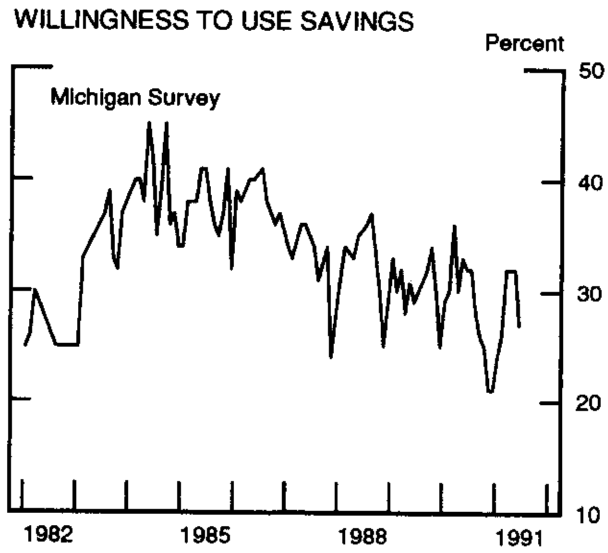
Contributions to Real GNP Growth in the First Year of Expansion
(percentage points)

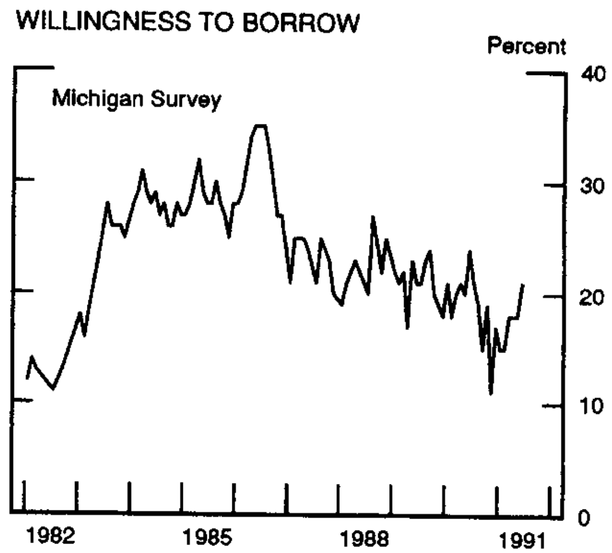
	Current Cycle		Average of Four
	91:Q1 Trough	91:Q2 Trough	Earlier Cycles*
GNP	3.2	3.7	5.5
Personal consumption	1.8	1.7	3.2
Producers' durable equipment	.4	.6	.6
Construction	.1	.2	1.1
Government purchases (ex. CCC)	–.1	–.2	.4
Exports of goods and services	.7	1.1	.2
Imports of goods and services	–1.0	–1.1	–1.2
Inventories (incl. CCC)	1.3	1.5	1.4
MEMO: Final sales (ex. CCC)	1.9	2.2	4.2

* 1961, 1970, 1975 and 1982.

Chart 3


PERSONAL SAVINGS RATE
Percent
12
9
6
3
0
1950
1956
1962
1968
1974
1980
1986
1992


WILLINGNESS TO USE SAVINGS
Percent
Michigan Survey
50
40
30
20
10
1982
1985
1988
1991


WILLINGNESS TO BORROW
Percent
Michigan Survey
40
30
20
10
0
1982
1985
1988
1991

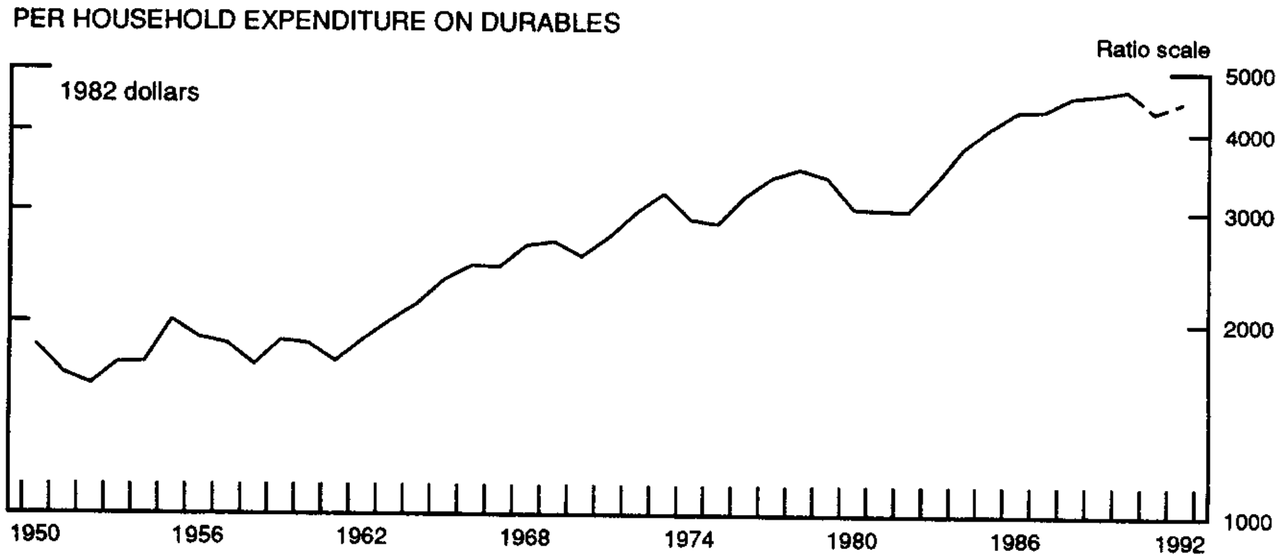
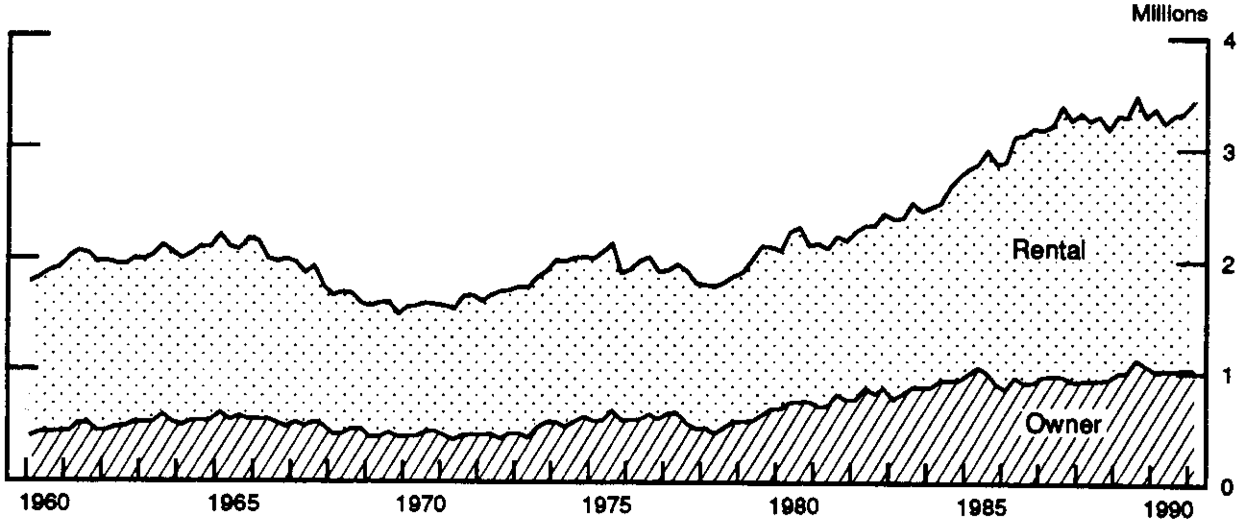
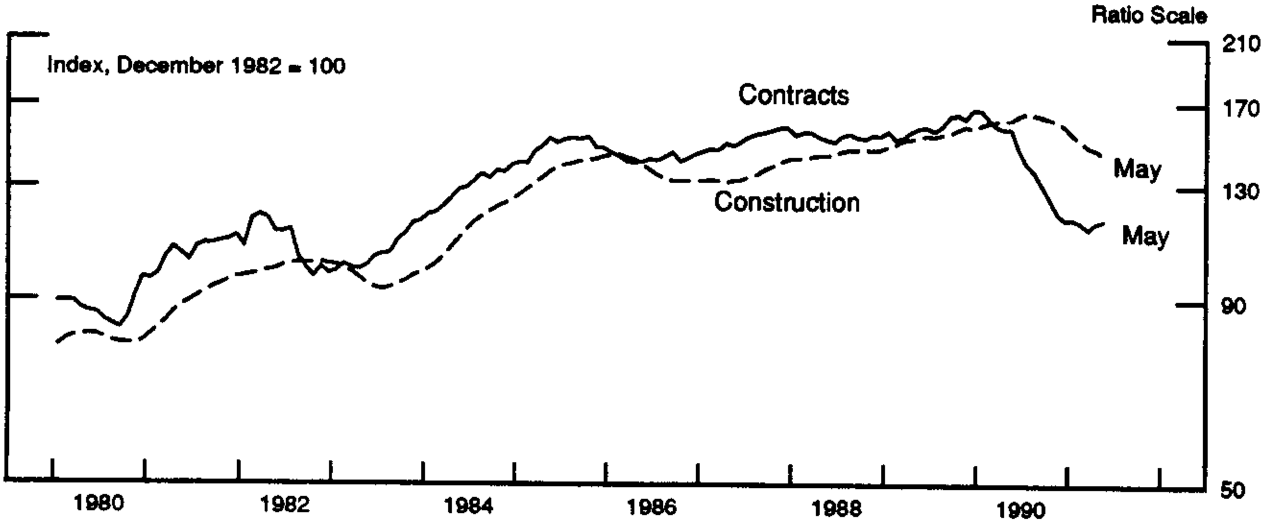

PER HOUSEHOLD EXPENDITURE ON DURABLES
Ratio scale
1982 dollars
5000
4000
3000
2000
1000
1950
1956
1962
1968
1974
1980
1986
1992

Chart 4

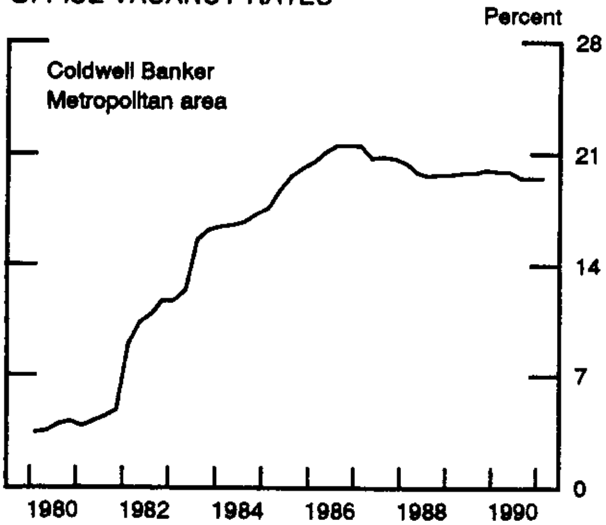
VACANT HOUSING UNITS



NONRESIDENTIAL BUILDING



OFFICE VACANCY RATES



NONRESIDENTIAL STRUCTURES—1990

	1982 dollars
Total	121
Office	19
Other commercial	22
Industrial	17
Institutional	20
Drilling and mining	17
Utilities and other	26

Chart 5

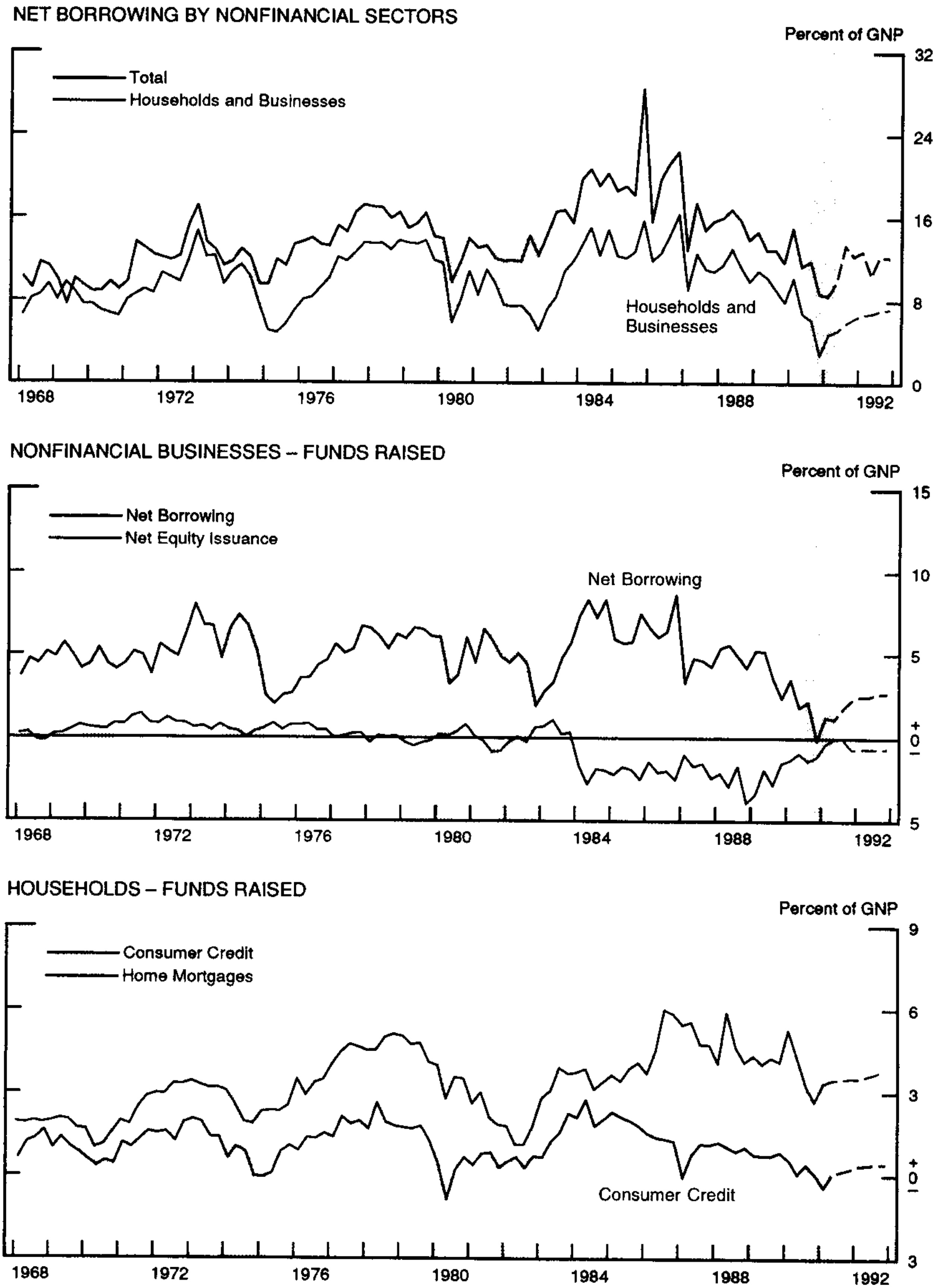
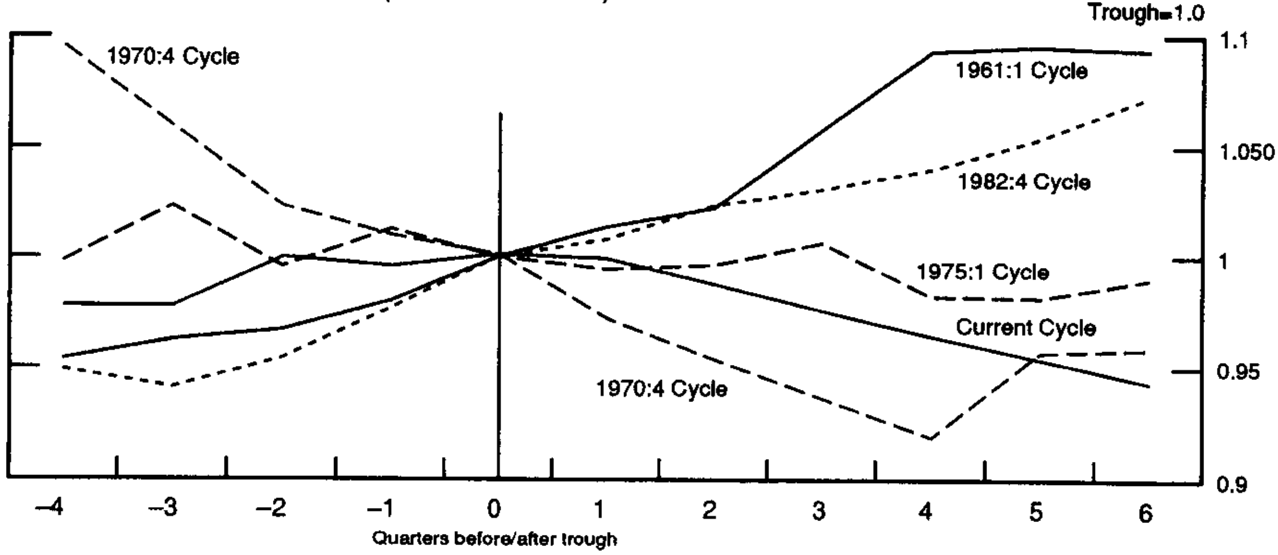
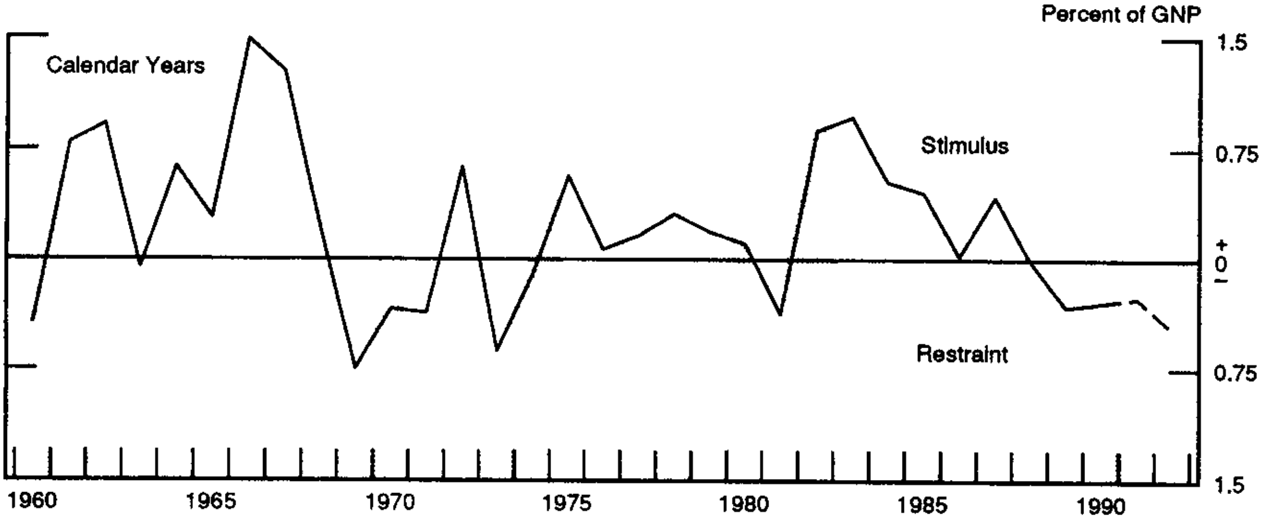

NET BORROWING BY NONFINANCIAL SECTORS
Percent of GNP
Total
Households and Businesses
Households and Businesses
32
24
16
8
0
1968
1972
1976
1980
1984
1988
1992
NONFINANCIAL BUSINESSES – FUNDS RAISED
Percent of GNP
Net Borrowing
Net Equity Issuance
Net Borrowing
15
10
5
+
0
–
5
1968
1972
1976
1980
1984
1988
1992
HOUSEHOLDS – FUNDS RAISED
Percent of GNP
Consumer Credit
Home Mortgages
Consumer Credit
9
6
3
+
0
–
3
1968
1972
1976
1980
1984
1988
1992

Chart 6

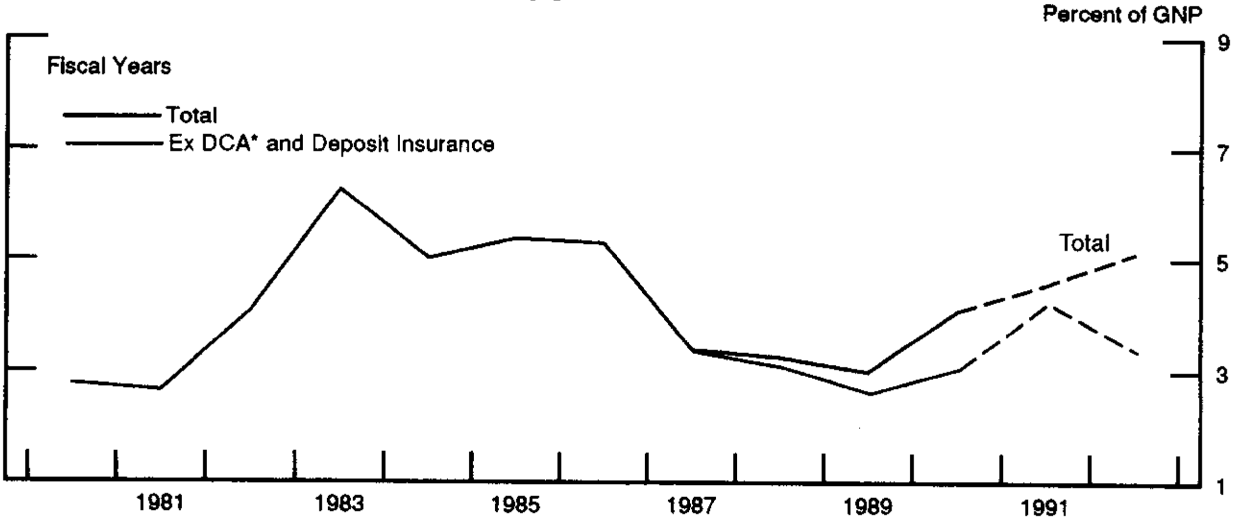
REAL FEDERAL PURCHASES (EXCLUDING CCC)



FISCAL IMPETUS



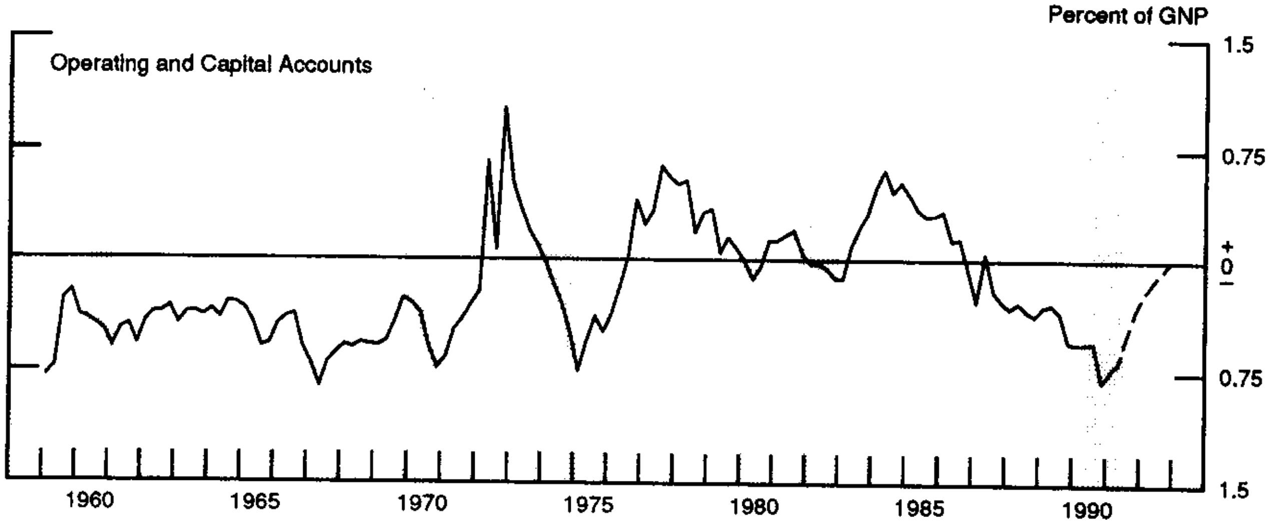
FEDERAL BUDGET DEFICIT – UNIFIED BASIS



*Defense Cooperation Account

Chart 7

STATE AND LOCAL SURPLUS/DEFICIT



STATE AND LOCAL GOVERNMENT REAL PURCHASES

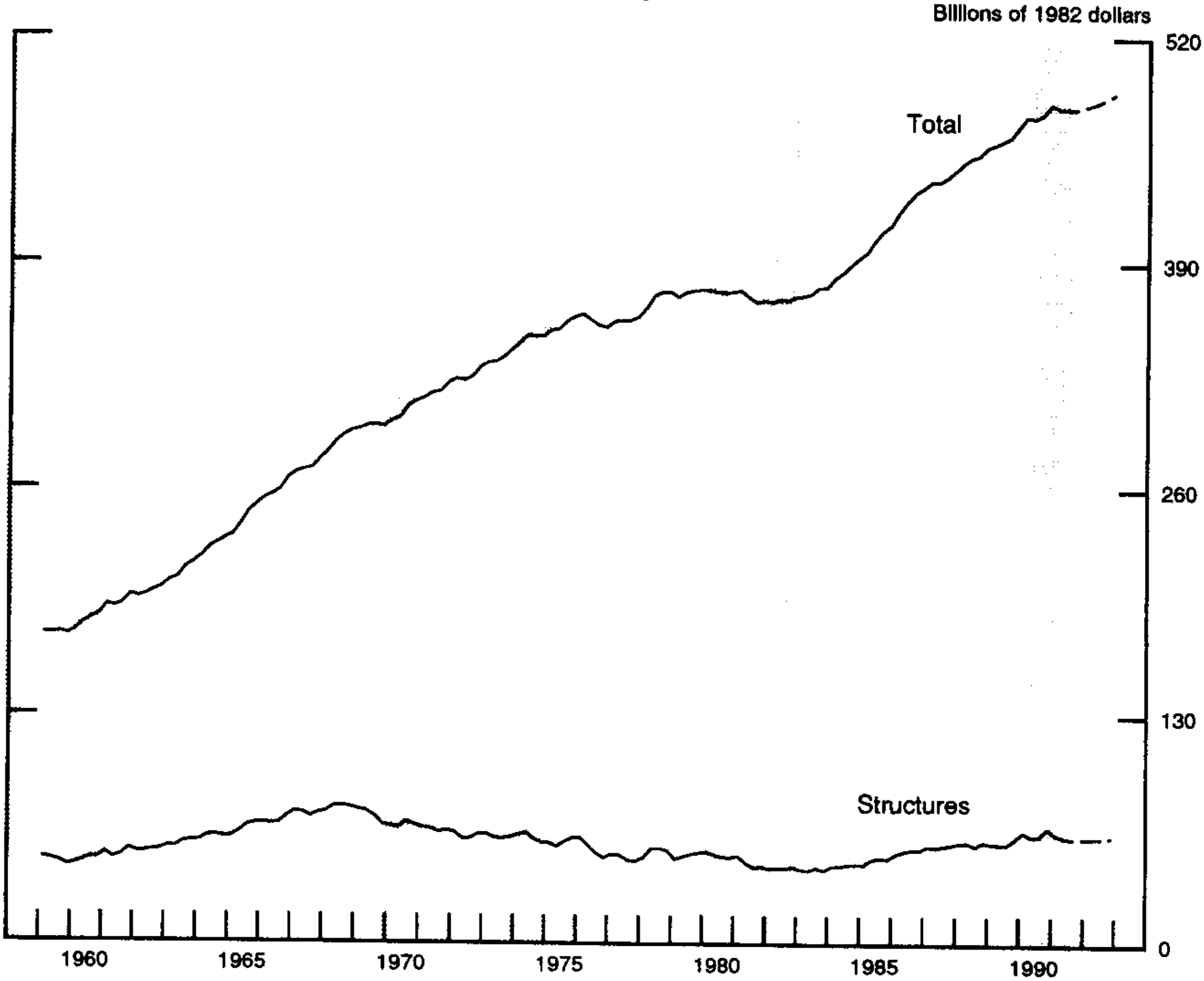
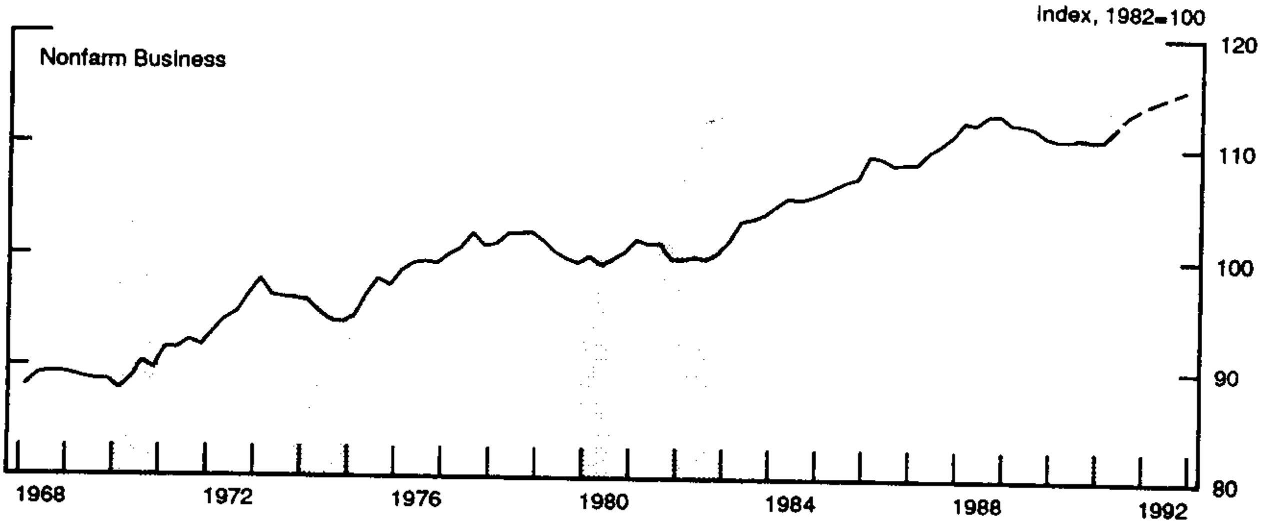
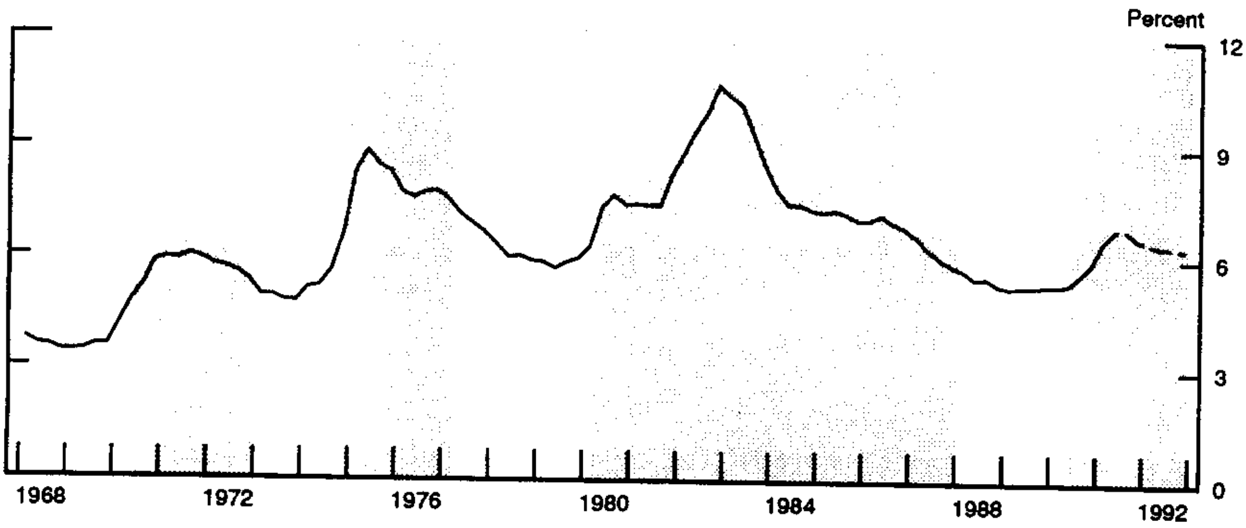


Chart 8

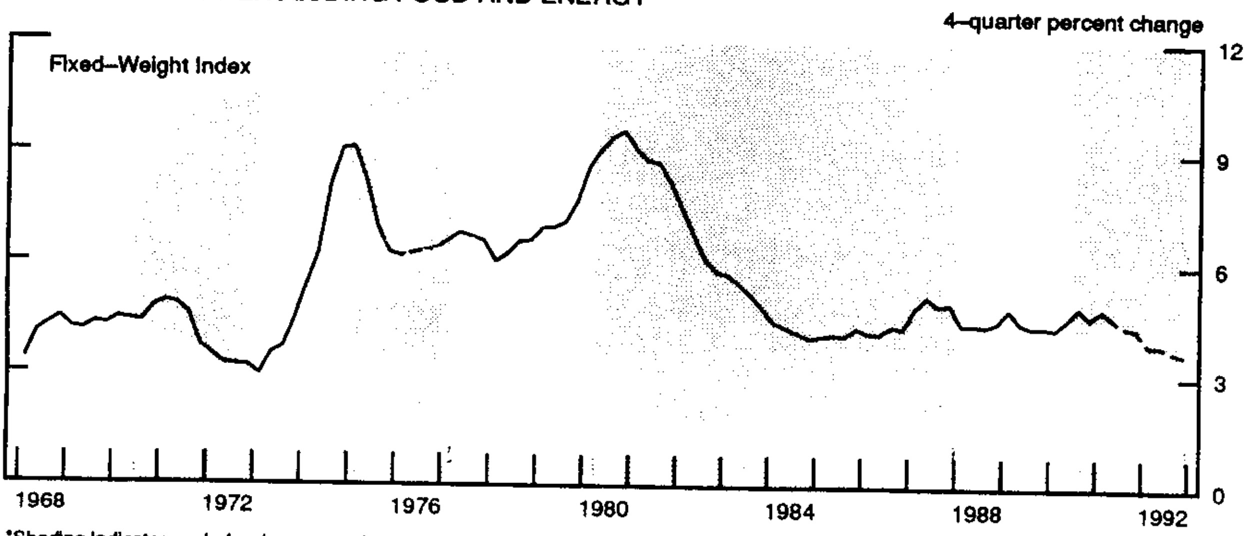
LABOR PRODUCTIVITY



CIVILIAN UNEMPLOYMENT RATE*



PRICES FOR PCE EXCLUDING FOOD AND ENERGY*



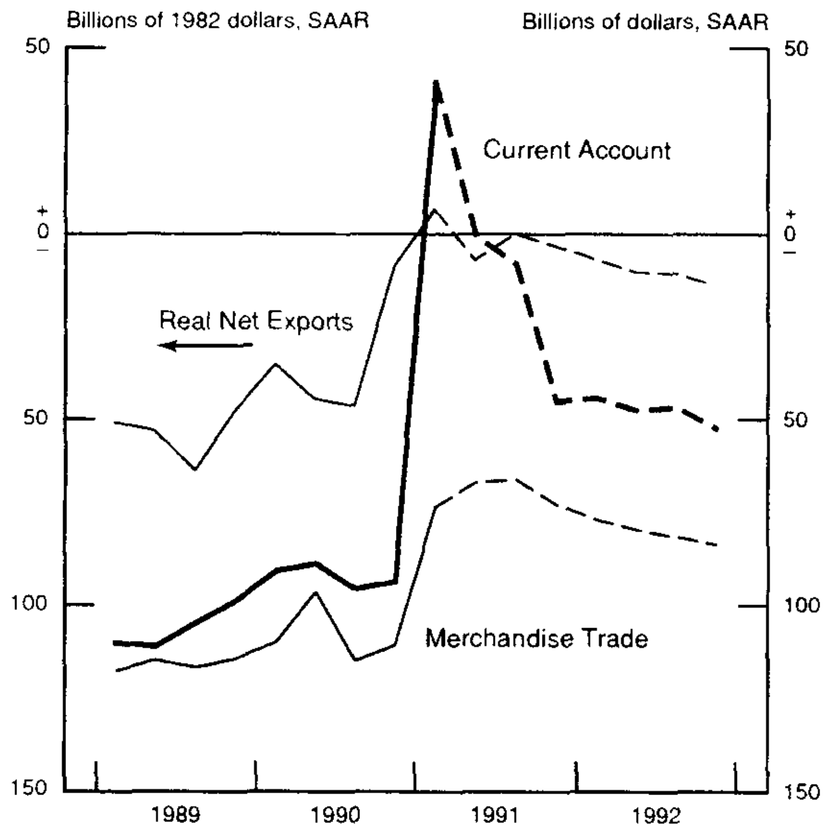
*Shading indicates periods when unemployment rate exceeds NAIRU.

U.S. External Accounts

MAJOR FACTORS AFFECTING THE EXTERNAL SECTOR

- Recovery of U.S. domestic demand.
- Moderate pickup in growth on average in the major foreign industrial countries.
- Recent strength of the dollar persists.
- Oil prices remain near current levels.

EXTERNAL BALANCES

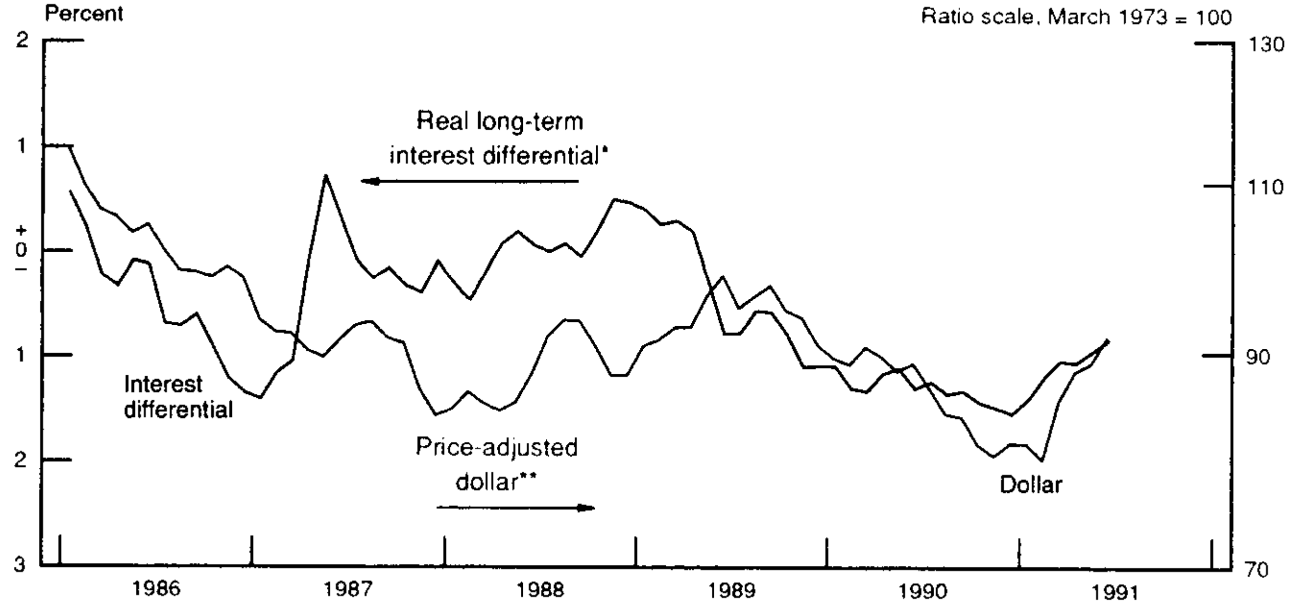


Billions of dollars annual rate, Q4

	1990	1991	1992
Merchandise Trade	−111	− 73	− 84
Current Account	− 94	− 45	− 52
Real Net Exports	− 9	− 4	−14

Chart 10

THE DOLLAR AND THE INTEREST DIFFERENTIAL



* Difference between rates on long-term U.S. government bonds and a weighted average of foreign G-10 long-term government or public authority bond rates, adjusted for expected inflation.
** Weighted average against foreign G-10 countries, adjusted by relative consumer prices.

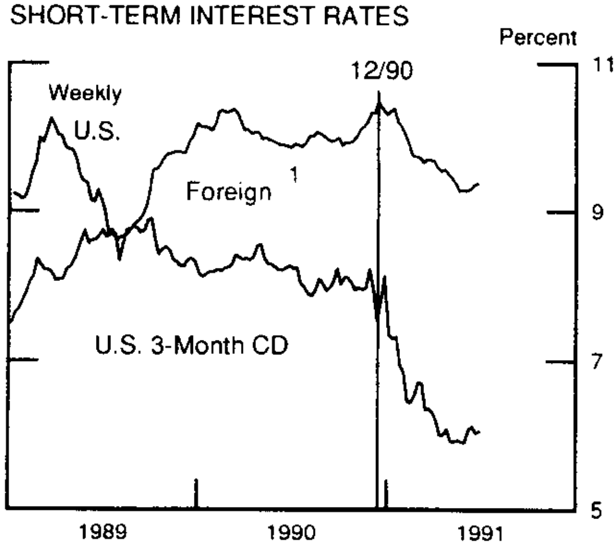
Nominal Dollar Exchange Rates

	Percent change 12/90 to 6/28/91
Deutschemark	21
Pound Sterling	19
Yen	3
Canadian Dollar	–2
S. Korean Won	1
Taiwan Dollar	0

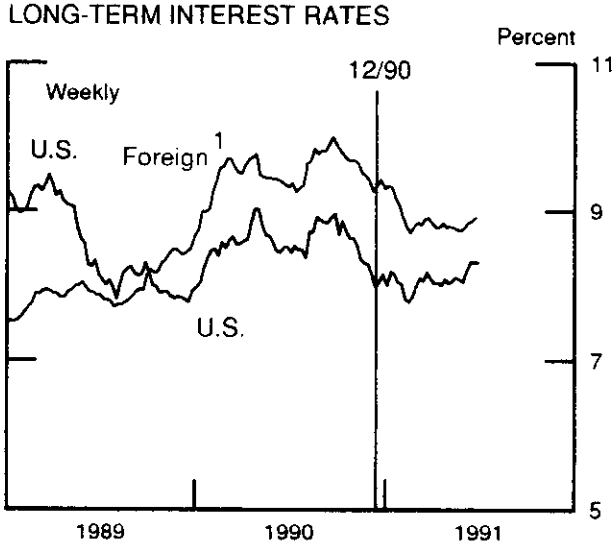
Nominal Interest Rates
Percent

	Change 12/90 to 6/28/91	Level 6/28/91
Three-month		
Germany	–0.17	9.00
Japan	–0.35	7.92
U.S.	–1.76	6.06
Long-term		
Germany	–0.28	8.50
Japan	0.04	6.78
U.S.	0.16	8.24

SHORT-TERM INTEREST RATES

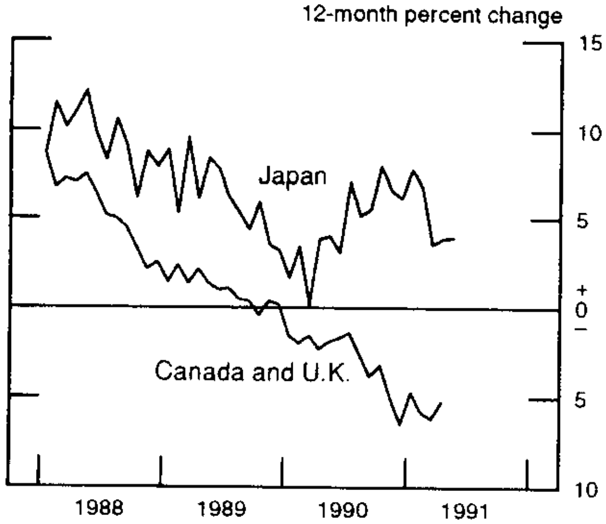


LONG-TERM INTEREST RATES

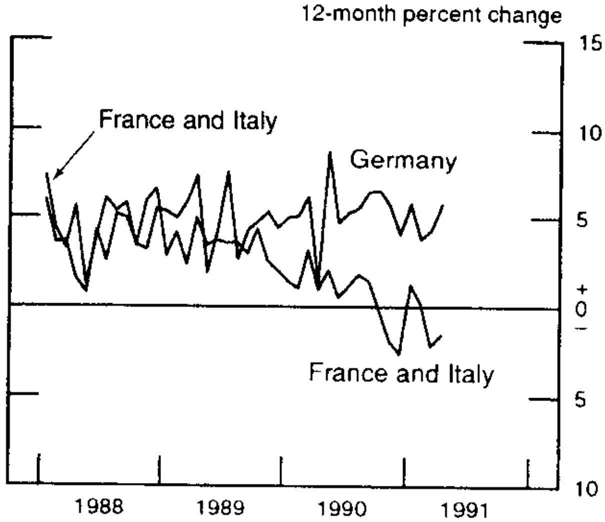


1. Multilateral trade-weighted average for foreign G-10 countries.

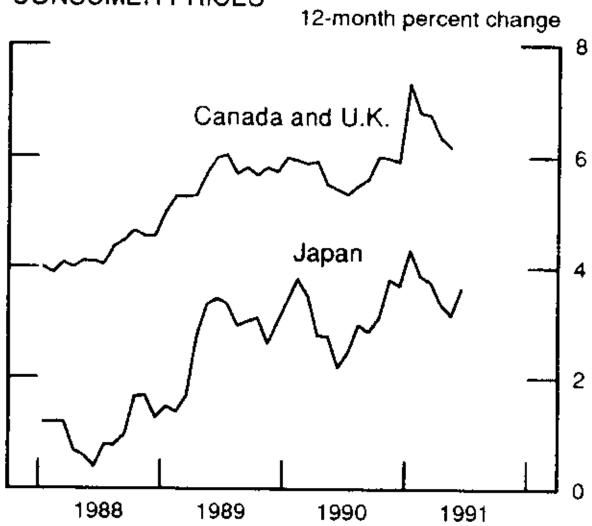
INDUSTRIAL PRODUCTION*



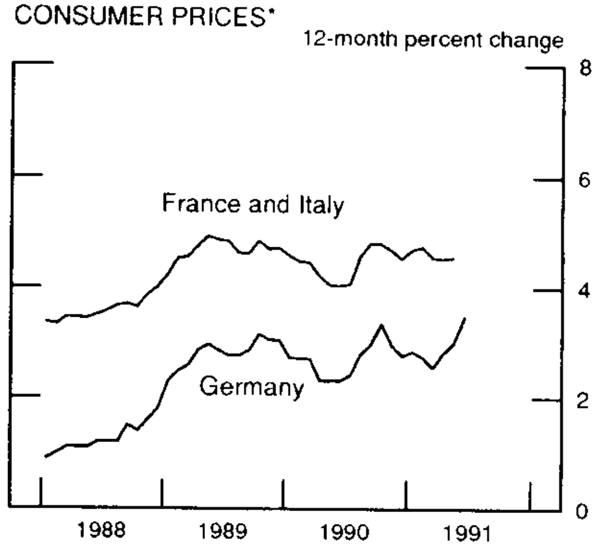
INDUSTRIAL PRODUCTION*



CONSUMER PRICES*



CONSUMER PRICES*

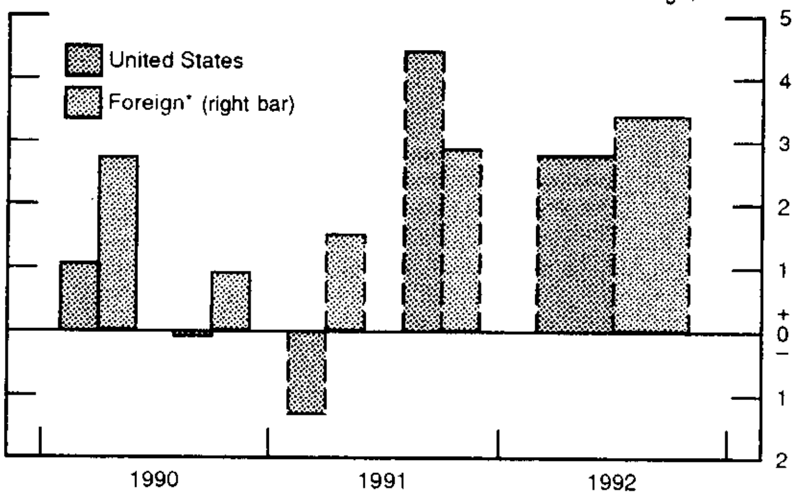


ECONOMIC POLICY ABROAD

- Growth slowing in Japan and Germany following very strong first quarters, but inflation concerns remain.
- Tentative signs of pickup in some weaker economies.
- Monetary policy cautious, but interest rates may decline further in some countries as inflation eases.
- Fiscal policy in Germany tighter following expansion this year; policies slightly contractionary on average in other countries.

* Averages weighted by bilateral shares in U.S. non-agricultural exports.

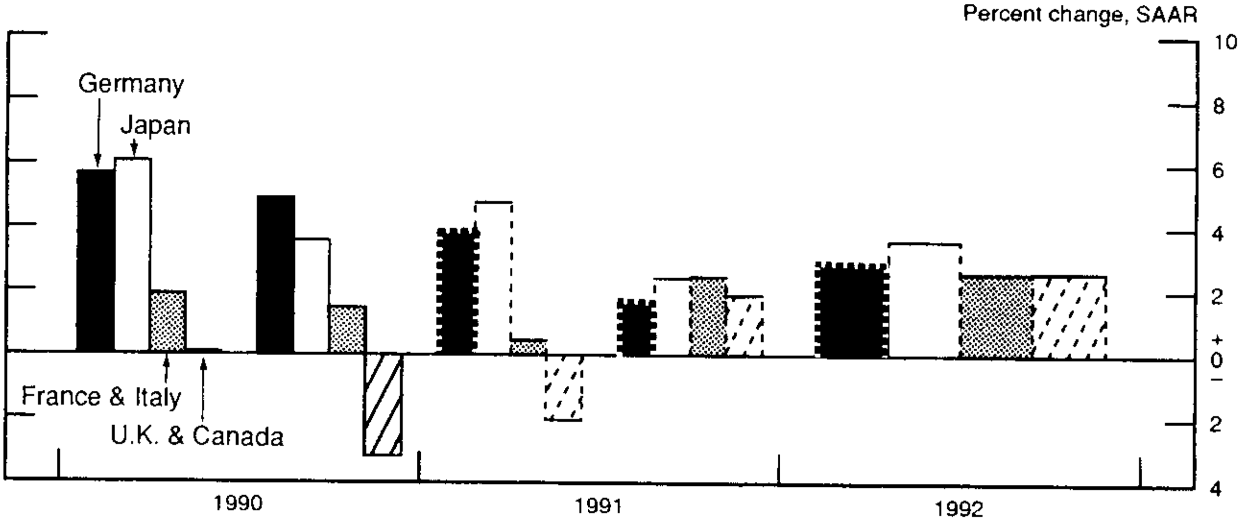
REAL GNP: U.S. AND FOREIGN



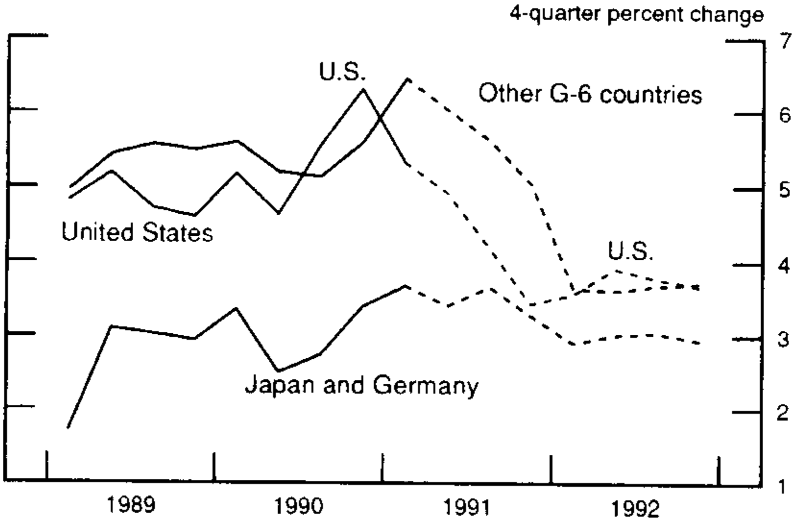
Foreign GNP*
Percent change

	G-6	Other
1990 H1	2.0	3.8
1990 H2	-0.6	2.7
1991 H1	0.1	3.1
1991 H2	2.0	3.6
1992	2.8	3.8

REAL GNP: G-6 COUNTRIES**



CONSUMER PRICES: U.S. AND G-6 COUNTRIES***

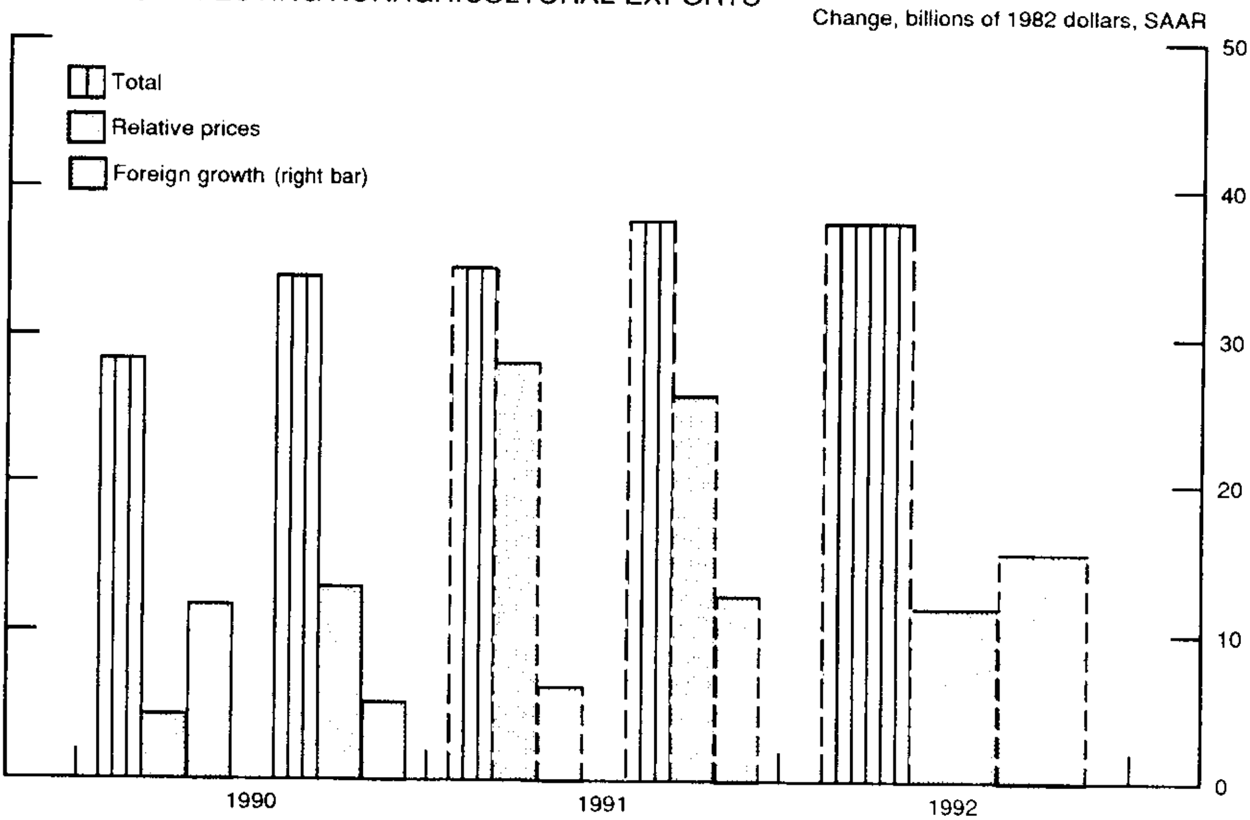


Consumer Prices***
Percent change
Q4 to Q4

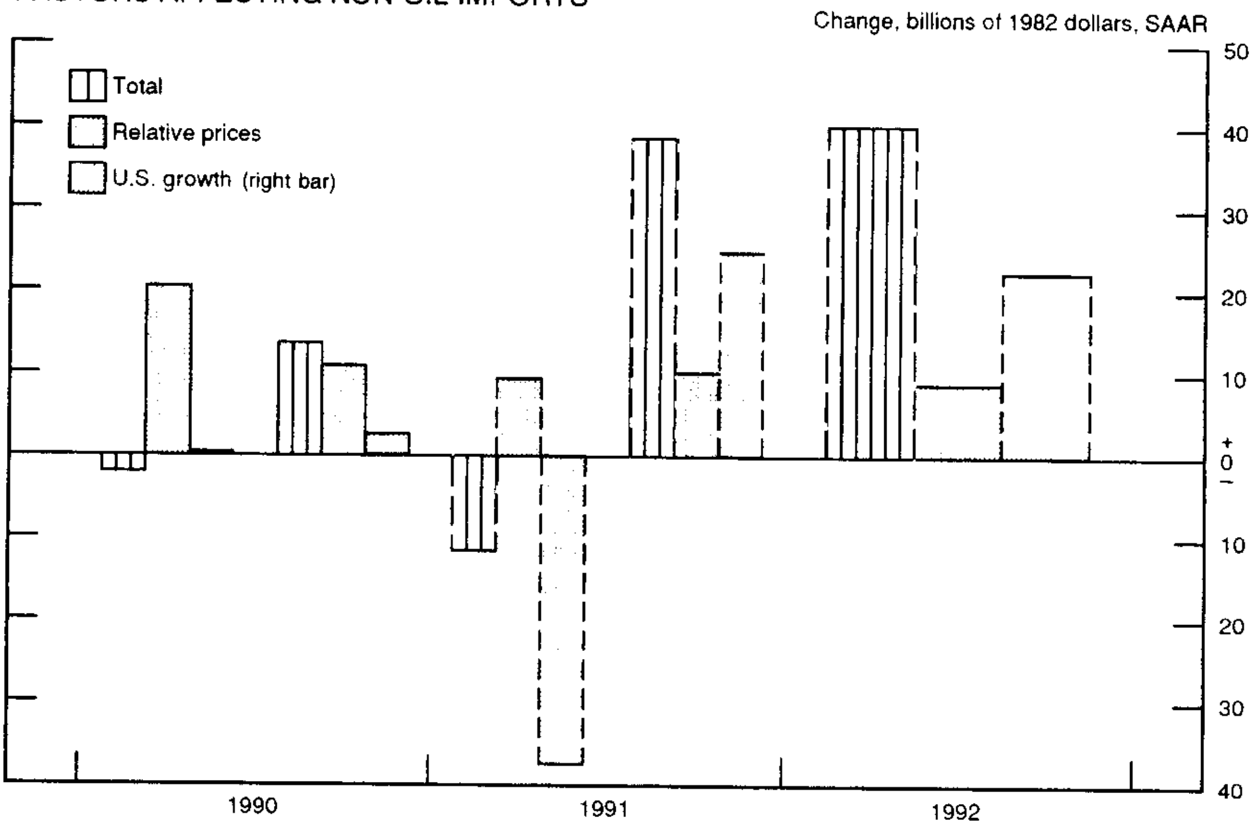
	G-6	U.S.
1989	4.2	4.6
1990	4.5	6.3
1991	4.1	3.4
1992	3.3	3.7

* Average of 22 industrial and 8 developing countries weighted by bilateral shares in U.S. non-agricultural exports.
** Averages weighted by bilateral shares in U.S. non-agricultural exports.
*** Average using U.S. bilateral non-oil import weights.

FACTORS AFFECTING NONAGRICULTURAL EXPORTS



FACTORS AFFECTING NON-OIL IMPORTS



Alternative Scenarios

Baseline:	Greenbook forecast extended through 1993; M2 growth at 5-1/2 percent in 1992 and 1993.
February Dollar:	Dollar at the level projected in February, almost 15 percent below level now projected; federal funds rate unchanged from baseline.
Weak Foreign Growth:	Foreign growth remains at about 1-1/2 percent; federal funds rate unchanged from baseline.

	1991	1992	1993
Percent change, Q4 to Q4			
Real GNP, U.S.			
Baseline	1-1/2	2-3/4	2-1/2
February Dollar	2-1/2	4-1/4	5
Weak Foreign Growth	1-1/2	2	1
GNP Prices			
Baseline	4	3-1/2	3-1/4
February Dollar	4-1/2	4-1/2	5
Weak Foreign Growth	4	3-1/4	2-1/2
Real GNP, Foreign *			
Baseline	2-1/4	3-1/2	3-1/2
February Dollar	2-1/4	3-1/4	4
Weak Foreign Growth	1-1/2	1-1/2	1-1/2
Q4 Level, $ billions			
Current Account			
Baseline	-45	-52	-56
February Dollar	-37	-20	-32
Weak Foreign Growth	-48	-73	-95

* Average of 22 industrial and 8 developing countries weighted by bilateral shares in U.S. non-agricultural exports.

ECONOMIC PROJECTIONS FOR 1991

	FOMC Range	FOMC Central Tendency	Administration	Staff
	Percent change, Q4 to Q4			
Nominal GNP	3–3/4 to 5–3/4	4–1/2 to 5–1/4	5.3	5.3
previous estimate	3–1/2 to 5–1/2	3–3/4 to 5–1/4	5.3	5.9
Real GNP	1/2 to 1–1/2	3/4 to 1	0.9	1.5
previous estimate	–1/2 to 1–1/2	3/4 to 1–1/2	0.9	1.9
CPI	3 to 4–1/2	3–1/4 to 3–3/4	4.3	3.4
previous estimate	3 to 4–1/2	3–1/4 to 4	4.3	3.9
	Average level, Q4, percent			
Unemployment rate	6–1/2 to 7	6–3/4 to 7	6.7	6.6
previous estimate	6–1/2 to 7–1/2	6–1/2 to 7	6.7	6.1

ECONOMIC PROJECTIONS FOR 1992

	FOMC Range	FOMC Central Tendency	Administration	Staff
	Percent change, Q4 to Q4			
Nominal GNP	4 to 6–3/4	5–1/2 to 6–1/2	7.5	6.1
Real GNP	2 to 3–1/2	2–1/4 to 3–1/4	3.6	2.8
CPI	2–1/2 to 4–1/4	3 to 4	3.9	3.7
	Average level, Q4, percent			
Unemployment rate	6 to 6–3/4	6–1/4 to 6–1/2	6.6	6.3